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12 July 1972

Central Intelligence Bulletin

CONTENTS

VIETNAM: Situation report. (Page 1)

CHILE: Allende goes on the offensive over economic powers. (Page 2)



25X6

JAPAN-US: Tokyo considers large purchases of uranium and grain. (Page 4)

BANGLADESH: First budget focuses on economic rehabilitation. (Page 5)

MAURITANIA: Improves relations with Libya and Algeria. (Page 6)

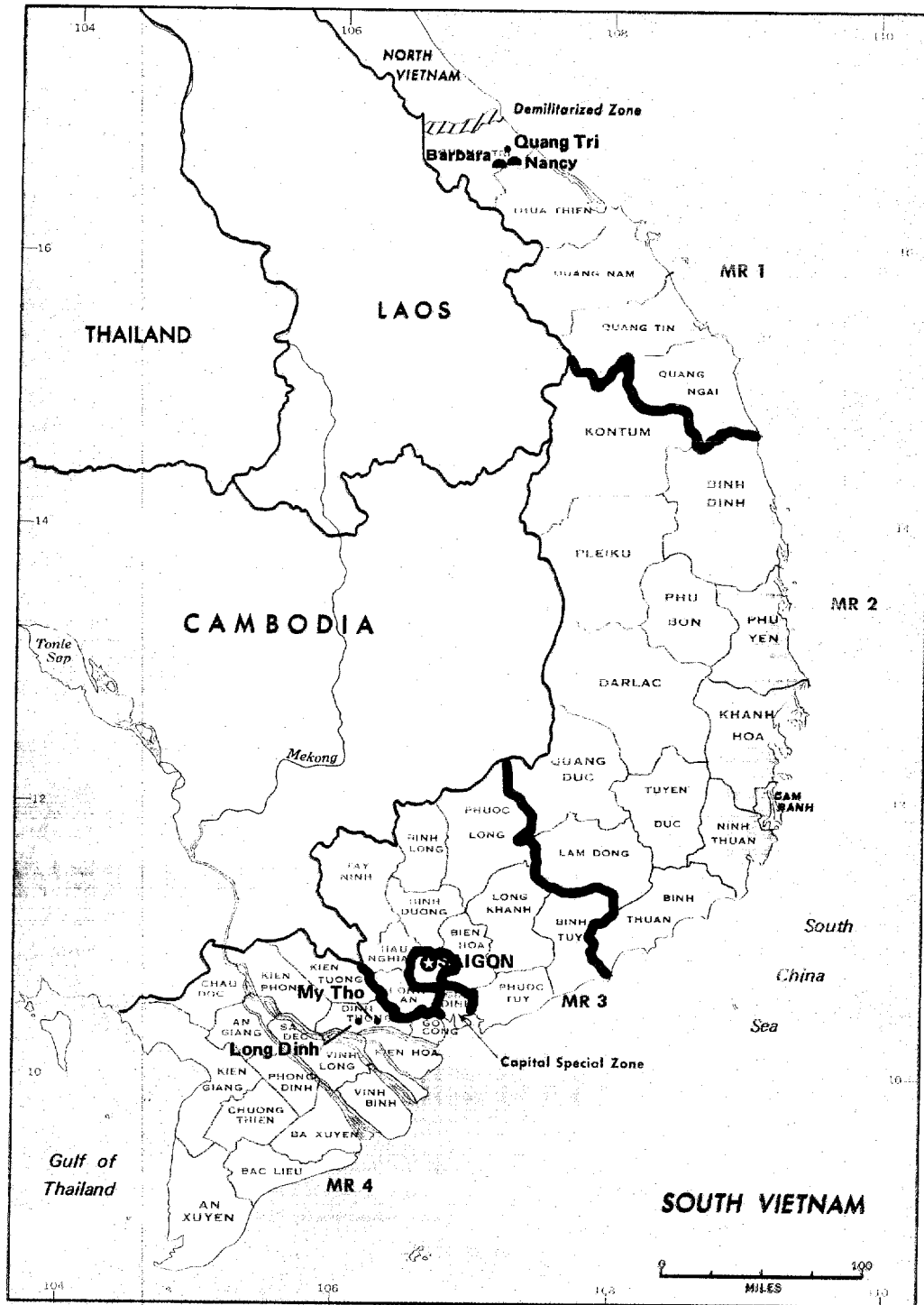
LIBYA: Qadhafi threatens to resign again. (Page 7)

ITALY: Government faces vote of confidence (Page 8)

UK: Voluntary wage and price controls under consideration (Page 8)

SECRET

SECRET



553331 7-72

SECRET

VIETNAM: South Vietnamese units have made progress against Communist forces outside Quang Tri City, but some government troops inside the city have been withdrawn to the outskirts.

The command posts of airborne elements that had been fighting inside the provincial capital were pulled back following sharp contacts with enemy troops on 9 July. Allied air and artillery fire reportedly is being directed at enemy forces inside the town, but thus far Communist defenders are holding their ground. Airborne units south of the town have made some progress, however, pushing their left flank westward to a point between Fire Support Bases Nancy and Barbara. In addition, a reinforced South Vietnamese Marine battalion was landed by helicopter at a point about two miles north of Quang Tri City on 11 July. Other marine units east of the city, supported by naval gunfire, repulsed a tank-led ground assault, destroying six Communist tanks.

In Dinh Tuong Province in the Mekong Delta, Long Dinh district town, which was first attacked on 8 July, has been subjected to continuing harassment. Another district town less than two miles from the provincial capital of My Tho was hit by mortar attacks, and the Communists made an unsuccessful attempt to mine the My Tho waterfront on 11 July. Government positions in Chuong Thien and Kien Hoa provinces in the delta have also come under attack in recent days.

25X1

12 Jul 72

Central Intelligence Bulletin

1

SECRET

CHILE: President Allende has gone on the offensive against his opposition, apparently armed with specific plans and more unified political backing.

In a major speech on 10 July, Allende declared that his attempts to find a compromise on important issues had been close to success when they were blocked by politicians intent on subverting the constitutional and economic rights of the Chilean people. He tied the accusations to the refusal of the opposition majority in Congress to accept his revisions of its constitutional reform defining the government's economic prerogatives or to accept the jurisdiction of the constitutional tribunal in the dispute. He maintained that this and other opposition moves were a deliberate attempt to precipitate a crisis. None of the many issues Allende mentioned was new, but his attacks were telling and implied plans to take strong countermeasures.

When negotiations with the Christian Democrats foundered last week and the Senate rejected Allende's revisions, his justice minister declared that the government would now go on the offensive. He alluded to a "war plan" that had been adopted several months ago for just this contingency. On 10 July a top spokesman for the Communist Party, which played a key role in the compromise negotiations, told the press that the Communists would go along with Socialist insistence that the negotiations not be reopened.

Allende stressed in his speech the agreement among his political partners on new policies to achieve reforms. This kind of agreement, especially between the Communists and Socialists, has been hard to come by. They may have come to realize the high cost of endless controversy and the effectiveness of the opposition's recently more forceful tactics. If Allende has achieved a modicum of agreement on present strategy, he may be able to strengthen his government's position.

25X1

12 Jul 72

Central Intelligence Bulletin

2

SECRET

25X6

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SECRET

JAPAN-US: Tokyo is considering the purchase of \$1 billion of US uranium and grain during trade talks later this month, but a final government decision has not yet been reached.

The purchase, which could involve \$350-400 million of safeguarded enriched uranium for Japan's atomic power industry and up to \$700 million of feed-grains, would reduce Tokyo's projected \$3.5-4.0 billion trade surplus with the US in 1972. Although the proposal may be aimed at avoiding new US trade restrictions, it also may be designed to soften US demands that Japan open its market to goods such as computers.

The plan has been under discussion within the Japanese Government for more than a month, but will be presented formally by the Federation of Economic Organizations to Prime Minister Tanaka today. Talks have been under way for some time between the US and the Japanese Atomic Energy Commission, although details still must be worked out. The amount of grain involved is still far from certain, however, because the powerful Ministry of Agriculture apparently has not yet taken a position despite a strong push by the ministries of International Trade and Industry and Foreign Affairs.

[REDACTED]

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25X1

25X1

12 Jul 72

Central Intelligence Bulletin

4

SECRET

~~SECRET~~

BANGLADESH: The country's first annual budget reflects the priority the Mujib regime has assigned to rehabilitation of the economy.

Dacca has written no new tax measures into the budget, but apparently expects revenues to cover current expenditures and even yield a small surplus. Development expenditure has been set at \$685 million, six times the level of the past six months. Foreign assistance, not counting the half billion dollars of food and relief aid pledged to the Mujib government, is scheduled to pay for about three fourths of development spending.

On-going development projects will be pruned, except those in rural areas where more than four fifths of the population still reside. The plan focuses on accelerating food production and rural development. Agriculture is slated to receive one third of development expenditures, and two thirds of the total outlay will directly benefit the rural areas.

The economic realities, however, are somber. Industrial production in the fiscal year that ended on 30 June may have been as much as 50 percent lower than in the previous year. Agricultural production was also well below normal. Many basic commodities remain in extremely short supply and unemployment is massive. Large-scale starvation has been averted, but pockets of serious food scarcity have appeared periodically. The people have long been accustomed to extreme hardship, however, and so far their economic difficulties have not spilled over into serious political instability.

25X1

12 Jul 72

Central Intelligence Bulletin

5

~~SECRET~~

SECRET

MAURITANIA: Foreign Minister Mouknass' recent visit to Tripoli marked another step in Mauritania's development of close ties with Libya and Algeria.

In recent months the Mauritaniens have played host to Libyan Premier Qadhafi and to several other Libyan delegations, including one led by the director of the Libyan bank for foreign trade. Libya reportedly has offered to provide 65 percent of the capital to establish a third commercial bank in Mauritania. The Libyans have also opened the first large Arab cultural center in Nouakchott and plan to open another in Atar. The Mauritaniens have claimed publicly that Libya may finance ambitious road and agricultural projects as well as a large mosque, Koranic schools, and a university, presumably drawing on the \$20-million loan Tripoli granted last September.

Algerian Prime Minister Boumediene recently visited Nouakchott, and the Algerians reportedly have offered to increase assistance, if the Mauritaniens agree to eliminate their privileged ties with France dating from the colonial era.

Closer ties with north Africa are in line with the ruling Mauritanian People's Party's increasing emphasis on internal Arabization, adopted as official policy in 1967. Increased aid from Libya and Algeria would also allow Mauritania to pursue a more independent foreign policy by reducing its reliance on France. The aid offers, in fact, probably influenced Nouakchott's recent decision to seek revision of the cooperation agreements signed when Mauritania achieved its independence from France. Although Mauritania values its ties with France, some reduction in French influence would also undercut criticism by opposition elements that the Ould Daddah government is still too dependent on Paris.

12 Jul 72

Central Intelligence Bulletin

6

SECRET

SECRET

LIBYA: Colonel Qadhafi's newest threats to resign have triggered serious rumblings in the Revolutionary Command Council (RCC).

Qadhafi's recent outburst, [REDACTED] is the result of his falling out with confederation partners, Presidents Sadat and Asad, at their meeting in Egypt late last month. [REDACTED] Qadhafi's threats were precipitated by a serious argument with fellow RCC member Jallud who refused Qadhafi's request to quit the army and become prime minister. In order to prevent Qadhafi from publicly renouncing his leadership, his RCC colleagues reportedly blocked the radio station with troops and tanks with orders not to allow Qadhafi to enter.

Despite confused loyalties and frequent spats within the RCC, its members have so far rallied around their temperamental leader. As in the fall of 1971, when Qadhafi reported that he had resigned from the RCC, his colleagues have again persuaded him to stay on. An official RCC announcement on 10 July that "Major Jallud" has been charged with forming a new government seems to indicate that Qadhafi has changed his mind about Jallud resigning his commission.

Jallud is considered the number two man in the RCC pecking order and therefore the natural choice for prime minister. As head of a new cabinet, which probably will be composed of technicians with scant political influence, he will have simply formalized his position. [REDACTED]

12 Jul 72

Central Intelligence Bulletin

7

SECRET

SECRET

NOTES

ITALY: The government of Premier-designate Giulio Andreotti faces a critical confidence vote in the Senate late this week. The three coalition parties, with parliamentary support from the Republicans and a small German language group, gave the government a margin of 20 votes in the 630-seat Chamber of Deputies last week, but the expected support from the same parties in the Senate will provide only a bare majority at best. The outcome could hinge on absenteeism, a standard feature of parliamentary voting in Italy. Furthermore, the political coloration of the absentees could have a considerable impact. Conspicuous absences on the far right, for example, would make it less difficult for the government to rally a majority but would give rise to accusations that the government had survived through passive support from the neo-fascists and to demands that the government resign. [REDACTED]

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UK: The Confederation of British Industries has indicated that it is willing to participate in a working group with the Heath government and the Trades Union Congress to consider a voluntary system for restraining wage and price increases. Although controls are anathema to all three parties, especially to certain union leaders, the fear of possible statutory restraints has induced movement toward voluntary regulation. The government is under heavy pressure to stem the continuing inflation. One step would be to slow the growth of the money supply, currently expanding at an annual rate of 23 percent, but effective restraints on wages and prices probably will be needed. [REDACTED]

25X1

25X1

12 Jul 72

Central Intelligence Bulletin

8

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